

FINANCING STRUCTURE

ABSTRACT

A junior loan made by a junior lender to an owner/lessor of commercial real estate.

Ownership of the real estate and of a lease of the real estate may be arranged in one or more

5 special-purpose entities bankruptcy remote from obligations unrelated to the real estate. The
junior loan may be collateralized at least in part by a pledge to the lender of rent cash flows
generated by the lease and a junior assignment of rents under the lease. The junior lender may
forego any mortgage foreclosable against the real estate, any ownership interest in any entity
with an ownership interest in the real estate, the lessor of the lease, or a tenant of the real estate,
10 except at most in the event of bad boy acts and force majeure events. The owner may surrender
over to a lockbox arrangement the right to rents. The lockbox may be obligated to make a senior
payment to the senior lender and a junior payment to the junior lender before the owner receives
any residual of the lease payments. The lockbox may be structured to isolate payment risk to the
credit of the tenant. The junior loan may have a payment priority senior to all other obligations
15 of the lessor except a senior loan. Pricing of the junior loan may be based on the credit of the
tenant. The principal of the loan may be guaranteed by a financial derivative arranged to cover
default of the tenant on rents under the lease.